

**DEPARTMENT OF HOUSING AND
COMMUNITY DEVELOPMENT**

**FOR THE THREE-YEAR
PERIOD ENDING
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of the Department of Housing and Community Development for the three-year period ended June 30, 2004, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal controls and its operation that we consider material weaknesses; and
- no instances of noncompliance with applicable laws and regulations that are required to be reported.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY BACKGROUND AND FINANCIAL INFORMATION	1
FINANCIAL ACTIVITY	2-5
INDEPENDENT AUDITOR'S REPORT	6-7
OFFICIALS PAGE	8

AGENCY BACKGROUND AND FINANCIAL INFORMATION

The Department of Housing and Community Development (Department) administers programs to improve housing, encourage community development, and ensure compliance with the state's building code. Major areas of responsibility include community development, community revitalization, affordable housing, homeless assistance, building and fire safety, and rural development. The Department receives most of its funding through federal grants and the General Fund, and transfers a large portion to subrecipients including localities and nonprofit organizations.

FINANCIAL ACTIVITY

While federal and special revenue budget and transaction activity has remained steady over the past three years, General Fund budget and expenses decreased significantly between fiscal years 2002 and 2003. This decrease is due to mandated budget reductions, including the elimination of the Regional Competitiveness Program, which accounts for over \$10 million of the variance.

The difference between the federal fund original and adjusted budgets and actual expenses is due to the nature of the federal grants that the agency administers. The Department bases their federal budget on total available funds. Because many of these federal grants may be available over a period of years, not all expenditures occur in one given year. The difference between general fund original and adjusted budgets and actual expenses is due to the nature of some state grants that the agency administers, most notably the Industrial Site Development Program. These programs are available for more than one fiscal year and require mandatory reappropriation for funds not used in the prior year. The mandatory reappropriation increases the adjusted budget. However, since the grants are available over a period of years, not all expenditures occur in one given year.

Table 1

Budget and Expense Analysis			
	Original Budget	Adjusted Budget	Actual Expenses
Fiscal Year 2002:			
General Fund	\$ 43,669,657	\$ 44,101,849	\$ 36,600,039
Special Revenue Funds	1,458,127	4,151,392	3,289,154
Federal Fund	<u>62,622,489</u>	<u>62,722,489</u>	<u>56,383,472</u>
Total	<u>\$107,750,273</u>	<u>\$ 110,975,730</u>	<u>\$ 96,272,665</u>
Fiscal Year 2003:			
General Fund	\$ 26,219,856	\$ 29,960,216	\$ 25,356,525
Special Revenue Funds	2,004,243	2,823,085	2,019,061
Federal Fund	<u>68,343,691</u>	<u>68,343,691</u>	<u>56,657,184</u>
Total	<u>\$ 96,567,790</u>	<u>\$ 101,126,992</u>	<u>\$ 84,032,770</u>
Fiscal Year 2004			
General Fund	\$ 23,462,394	\$ 28,333,648	\$ 26,188,381
Special Revenue Funds	2,004,243	3,053,440	2,411,692
Federal Fund	<u>69,093,691</u>	<u>69,093,691</u>	<u>58,400,357</u>
Total	<u>\$ 94,560,328</u>	<u>\$ 100,480,779</u>	<u>\$ 87,000,430</u>

Source: Commonwealth Accounting and Reporting System
 2002 Original Budget-Appropriation Act, Chapter 819
 2003 Original Budget-Appropriation Act, Chapter 899
 2004 Original Budget-Appropriation Act, Chapter 1042

Analysis of Expenses

Six programs drive the Department's organization and activities: Housing Assistance Services; Economic Development Research, Planning and Coordination; Regulation of Structure Safety; Administration Support Services; Industrial Development and Commission on Local Government. Over fiscal years 2002 through 2004, transfers to subrecipients account for 89 to 87 percent of expenditures. Over the same period, personnel expenses account for 8 to 9 percent of total expenditures.

Table 2

Expenses by Activity			
Activities	2002	2003	2004
Transfer payments	\$ 85,810,163	\$73,317,395	\$75,521,058
Personal services	7,232,056	7,428,998	7,931,449
Contractual services	2,055,040	2,125,309	2,006,841
Continuous charges	966,909	902,511	896,528
Equipment	111,601	139,249	525,494
Other	<u>96,898</u>	<u>119,307</u>	<u>119,059</u>
Total	<u>\$ 96,272,665</u>	<u>\$84,032,770</u>	<u>\$87,000,430</u>

Source: Commonwealth Accounting and Reporting System

For most programs, expenses have remained steady through fiscal years 2002 to 2004. However, the Economic Development Research, Planning, and Coordination Program experienced a 24 percent decrease

primarily due to the elimination of the Regional Competitiveness Program mentioned in the preceding section. During fiscal year 2004, the Commonwealth consolidated the Commission on Local Government (Commission) with the Department. During fiscal years 2002 and 2003, the Commission existed as a separate agency with expenses of \$659,966 and \$567,118 respectively. The consolidation decreased personnel and administrative expenses for fiscal year 2004.

Table 3

Programs	Expenses by Program		
	2002	2003	2004
Housing assistance	\$ 38,114,755	\$ 38,550,640	\$ 39,912,859
Economic development research, planning, and coordination	49,830,334	37,032,348	38,070,266
Industrial development	2,161,534	1,960,000	1,959,924
Administrative and support	2,321,753	2,635,528	2,579,512
Regulation of structure safety	3,844,290	3,854,254	4,079,470
Commission on local government	-	-	398,398
Total	<u>\$ 96,272,665</u>	<u>\$ 84,032,770</u>	<u>\$ 87,000,430</u>

Source: Commonwealth Accounting and Reporting System

Housing Assistance Services Program

The Division of Housing manages the Housing Assistance Services program, which provides affordable housing opportunities through the administration of state and federal grants. These grants provide funding, training, and technical assistance.

- The *HOME Investment Partnership Program* is a multi-purpose, federally-funded grant with fiscal year 2004 expenses over \$15 million. This program seeks to expand the supply of decent and affordable housing for low and very low-income individuals, by implementing strategies and providing financial and technical assistance to participating localities.
- The *Low-Income Energy Assistance Program* provides weatherization to homes of families who live within federal poverty guideline and spent \$5.7 million in fiscal year 2004.
- The *SHARE Homeless Intervention Program* provides grants to nonprofit organizations and local governments for grants and loans for temporary mortgages and rental assistance for low-income households that are homeless or at an imminent risk of becoming homeless. This program also provides security deposit assistance for homeless households. The Department spent \$4.5 million towards this program in fiscal year 2004.

Economic Development Research, Planning, and Coordination Program

The Division of Community Development manages the Economic Development Research, Planning, and Coordination program. This program supports various grants and activities designed to address a broad range of community and economic development needs and enhance economic vitality in communities.

- The *Community Development Block Grant* is the Division's largest federally-funded grant with fiscal year 2004 expenses of \$25.7 million. This grant helps develop communities by providing

decent housing and a suitable living environment, eliminating blighting conditions in deteriorated areas, and creating job and business opportunities for low to moderate income persons. Specific activities include acquisition of real property, and rehabilitation, relocation, and demolition of homes and buildings.

- The *Indoor Plumbing Rehabilitation Program* provides loans to cities and counties not receiving CDBG assistance directly from the U.S. Department of Housing and Urban Development. These loans fund the installation of indoor plumbing to owners of substandard housing where plumbing does not exist, or where existing water delivery or waste disposal systems have failed. The Department spent \$2.9 million towards this program in fiscal year 2004.

Industrial Development Program

This program carries out the provision of the *Enterprise Zone Act*, and encourages new business activity and expansion by providing state and local tax relief and grants, local regulatory flexibility, and local infrastructure development in selected economically depressed areas.

Regulation of Structure Safety Program

The Division of Building and Fire Regulation administers the Regulation of Structure Safety programs and provides technical assistance and staffing to the boards responsible for development and adoption of building and fire prevention codes. The Division administers such codes, manages the Virginia Building Code Training Academy, and administers the provisions of certification standards for building/fire officials and technical assistance.

Administrative and Support Services Program

The Division of Administration provides departmental and administrative support services and functions. These services and functions include computer services, financial management of grants, personnel, budgeting, research, procurement, payroll, and processing financial transactions.

Commission on Local Government

The Commission on Local Government reviews the boundary change and governmental transition issues for localities and courts, and provides technical assistance to local governments, state agencies, and the public on boundary change and transition issues. The Commission also prepares an annual report analyzing the revenue capacity, revenue effort, and fiscal stress of the Commonwealth's cities and counties, and an annual update on the Catalog of State and Federal Mandates on Local Governments documenting state agency assessment of mandates on localities. Additionally, the Commission prepares fiscal impact statements on proposed state legislation, and provides research assistance to the General Assembly and legislative study committees.

Virginia Removal or Rehabilitation of Derelicts Structures Fund

The General Assembly established the *Virginia Removal or Rehabilitation of Derelicts Structures Fund* to issue grants to localities for the acquisition, demolition, removal, rehabilitation, or repair of derelict structures. We issued reports on this fund for fiscal years 2002 and 2003. As in fiscal year 2003, the Governor's Budget Bill included no appropriations for fiscal year 2004. Consequently, the Department did not issue any grants from this fund. The Department transferred \$2,986 to the General Fund leaving a fiscal year 2004 cash balance of \$569.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts

P.O. Box 1295

Richmond, Virginia 23218

January 14, 2005

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Housing and Community Development** for the three-year period ended June 30, 2004. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Expenditures
Revenues
Federal

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management on January 31, 2005.

AUDITOR OF PUBLIC ACCOUNTS

JEP:whb
whb:41

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
Richmond, Virginia

As of June 30, 2004

William C. Shelton, Director

Basil Gooden, Chief Deputy Director

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